# Online sales tax not as lucrative as studies suggest

By Bill Leonard

Guest column

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State governments may be tempted by the promise of huge revenues from a new tax on Internet sales, but the data that purport to show an untapped revenue stream do not distinguish Internet e-commerce from existing taxable economic activity, much of which pre-dated the advent of the Internet.

The Desert Sun's Sept. 30 editorial ("Online shoppers can help fill coffers"), in favor of a tax on Internet sales cites two studies, one by Forrester Research, and another by the University of Tennessee, to support the notion that California is missing out on a windfall of potential tax revenues. The facts do not bear this out.

The Tennessee study relies on the Forrester projections from 1999 and 2000 -- the height of the Internet bubble. Forrester has since substantially revised its numbers downward, which is not reflected in the Tennessee study cited by The Desert Sun.

Moreover, both the Tennessee study and the Board of Equalization estimate that appeared in the same article, do not distinguish between business-to-business sales conducted via the Electronic Data Interchange (EDI), which has been in place for some time, and the Internet. With Commerce Department data suggesting that 95 percent of business-to-business sales were done through EDI, the Tennessee study grossly overestimated the volume of new Internet sales.

The Tennessee study also accepted the claim that the Internet would grow at an annual rate of 38 percent per year. Anyone who held tech stocks when the Internet bubble burst will relate to the folly of this assumption. In addition, the Tennessee study implicitly assumes that all Internet sales will be from "Internet only" retailers and ignores the movement to integrated "bricks and clicks" retailers, for whom sales tax collection is already in place.

Estimates based on newer Commerce Department information more correctly place the potential Internet sales tax revenue at $4.5 billion for all the states with sales taxes, less than 10 percent of the amount projected by the Tennessee study.

With respect to Internet and catalog purchases that involve companies with no physical presence in California, the state already requires its citizens to declare and pay Use Tax. While the total sales in this category is a substantial number when considered collectively, it involves many individual purchases, most of which are of such a small size that the dollars spent collecting and enforcing the tax for all purchases -- not to mention the invasion of privacy that would be needed -- is too high for the state to reasonably pursue.

**Bill Leonard** of San Bernardino was elected to serve on the Board of Equalization in the November 2002 elections. This elected body functions as California's tax board, which administers the collection and appeals for sales, income, and property taxes, as well as 31 other taxes and fees.